

Year in Review 2008
Utah Oil & Gas Program
Presented to the Board of Oil, Gas and Mining
January 2009

Overview:

The calendar year 2008 proved to be another very busy one for oil and gas in Utah. The high industry activity level again led to records broken. Product demand continued to grow and so did Utah's production. Utah's oil and gas industry continued to do their part in supplying oil and natural gas to the State and the nation.

The state of Utah is currently ranked 13th in the country in crude oil production (2007 production) and 8th in natural gas production (2007 production; not including Federal Offshore production areas). In 2008, there were approximately 8,600 producing wells in Utah, up 15% from 2007 and up 65% from 2003. Oil production during January thru August totaled 14,301,476 barrels, up about 10% from the same time period in 2007 and up 63% from 5 years ago. Natural gas production is also up about 9% from a year ago (January thru August) and 50% from 2003 with a volume of 287,361,571 mcf (thousand cubic feet). Total year-end production for 2008 is being estimated at about 21,000,000 barrels of oil and 426,000,000 mcf of natural gas. This would make 2008 the highest oil producing year in Utah since 1993 and the highest natural gas producing year on record.

Further development of waterfloods continued in the Monument Butte area, also drilling at Brundage Canyon and surrounding area. Altamont-Bluebell and especially west-Altamont/Cedar Rim area was active. Interest continued in the hingeline play in south central Utah resulting in a new discovery southeast of Gunnison. Deep gas drilling continued in the Monument Butte, Natural Buttes area and throughout much of the Uinta Basin, with Mesozoic Formations continuing to be deserving targets southward in the east and west Tavaputs areas. Many of these wells are targeting the deeper Mesa Verde, Mancos, and Dakota formations in addition to the Wasatch formation. These deeper targets are also being developed in the heretofore primarily oil producing areas of Red Wash and Wonsits Valley south of Vernal. The Book Cliffs area near the borders of Uintah and Grand counties and Duchesne and Carbon counties has seen continued activity in deep gas plays. Drilling proceeded on a Mississippian Manning Canyon prospect just north of the old Grassy Trail field.

Step-out, Infill and Horizontal Oil Well Developments are occurring in the Uinta Basin. Successful step-out wells drilled outside the Brundage Canyon core development area south of Duchesne continues resource development in the area. Infill drilling in this area as well as areas such as Red Wash, Wonsits Valley, and Monument Butte also bring great promise of continued economic development especially if the price of oil goes back up to a more economic level.

Advancements in directional drilling technology are allowing companies in these areas to drill horizontally into thin, low permeability formations that were previously uneconomic and also under rivers or in rugged terrain where it may not be possible or acceptable otherwise.

A seismic survey was completed, a wildcat drilled and another well permitted at Hogback Ridge in Rich county. This area has not seen activity for quite a few years.

During this record drilling year, although not mentioned specifically, other additional drilling activity was scattered throughout the state. These companies were utilizing permits received during 2008 as well as many received during prior years.

High drilling activity is of course followed by increased Division workload in record keeping, compliance and all the other aspects of our program that follow as our well inventory increases. Both oil and gas production in the state has steadily risen since 2003. From 2005 to 2008, over 6,600 permits to drill have been issued in Utah. That's a 91% increase from the number of permits issued the preceding four years. The production sales value of crude oil and natural gas in Utah for 2008 is expected to reach about \$4.4 billion, an increase of 163% over 2007. This value however, is expected to drop significantly over the next year showing the extreme volatility of prices.

Administration:

A few staff changes occurred during the year. Mike Hebertson left to join private industry. Clint Dworshak was hired as the new compliance and public outreach manager. Joshua Payne, engineering technician returned to us from his military duties. Major efforts continued in data management.

Permitting:

2008 was another busy year for oil and gas permitting. 2008 ranked fourth (2006- #1, 2005 - #2, 2007-#3) for APD approvals and first in the number of well spuds. Permits were issued for drilling, waste disposal facilities, underground injection wells and seismic operations. Many additions/modifications were issued for existing facilities. Our permitting staff continues to coordinate with other State, Federal and local agencies on a regular basis.

Drilling permits issued: 1,359 (-12.5%)

UIC permits issued: 29 (+26.1%) Conversion approvals 24 (+100%) Final permits

Permits to construct disposal facilities: 25 (+31.6%)

Permits to operate disposal facilities: 22 (+29.4%)

Disposal Pits closed and reclaimed: 1

The Division issued a total of 19 geophysical permits for 2008. Of these 19 permits 8 - 3D projects were completed totaling 380 square miles. Ten 2D permits were issued totaling 324 linear miles. One project is waiting

on federal approval before completion, one project is waiting a recording crew to complete, and one permit was canceled. There were 69 seismic field inspections conducted in 2008.

Inspection:

A total of 6,618 well/site inspections were conducted. There were 373 compliance issues recorded in 2008. The majority of the violations were reporting issues. 220 of these were resolved and the remainder are still ongoing issues. Staff also provided oversight for several ongoing contamination cleanup operations at gas plants, compressor sites, or other major spill sites. The majority of field time is spent on witnessing of plugging operations, pre-site inspections and waste facility inspections, which all require a lot of man-hours. A breakdown of inspections is as follows:

Audit 129
Casing and cement operations 102
Complaint 9
Compliance verification 288
Drilling 579
Emergency Response 8
Final Restoration/Bond Release 210
MIT's 64
Plugging 141
Presite 342
Production/Environmental (general inspections) 4171
Workover/Recompletion 127
Seismic 69
Facility (gas plants, waste disposal, compressors) 379

Total 6,618

Enforcement:

During 2008 the Division issued 61 NOV's. 30 of these are yet to be resolved. Therefore, 50% of the violations written were addressed in the same year that they were issued.

Shut-in wells that have not been in compliance since 2004 or longer are under review. Operators of these wells that have not responded to engineering's compliance letters and NOV's have been forwarded to enforcement (compliance manager) for further action. Last year

enforcement required full cost bonding from four operators for not bringing long-term shut-in wells into compliance. This year enforcement is considering issuing Division-plugging orders to operators that have not made an effort to bring long-term shut-in wells into compliance.

Data Management:

The Oil and Gas Information Services group continued its efforts to keep up with industry during 2008. Despite a drop in permits to drill, other activity increased to record levels. The number of wells spudded (drilling commenced) in Utah increased slightly from the previous year to a record level of 1,141 wells. The count of producing wells is 15% higher than a year ago. Oil production is up 10% and natural gas production is up 9%.

Oil & Gas Website

The Oil and Gas Program's website is heavily used by the public and praised by most who use it. Work continues to improve the quantity and quality of data made available. The site includes live data searches, scanned images of well files and logs, statistical information, rules, report forms, an option to file electronic permits to drill, electronic production reporting, and more.

Paperless Office

The Oil and Gas Program is pursuing a goal to "go paperless." Most of the Division's almost 26,000 well files have been scanned. All non-confidential files are available to the public on the Oil and Gas website. Other internal work documents are also being scanned to reduce paper storage space and improve work efficiencies. Much of this scanning is performed very efficiently by Utah Correctional Industries at the Utah State Prison at a very inexpensive price. Coordinated efforts continue with TGS Geological Products and Services (formerly A2D Technologies) and the Utah Geological Survey to scan the Division's well logs. The scanning of older logs is almost complete. Approximately 48,000 log images are now available on the Division website for 14,500 wells.

Electronic Reporting and Permitting

The Oil and Gas Program moved forward with its ePermit program during 2008. Companies are now able to submit applications for permits to drill via the internet and monitor the progress of their permits. Division employees can electronically perform their permit reviews and track the work done. Efforts are progressing to build new web applications for submitting sundry notices. This will make it possible for operators to electronically submit their intentions to perform work on wells, obtain Division approval, and then give subsequent reports of the work performed. These systems will ultimately reduce the workload for operators and Division employees while speeding up the approval processes.

Auditing & Bonding:

The following summarizes the Audit Section activities for the 2008 calendar year.

Auditing

7 completed production/Disposition audits

11 field inspection reviews

1 water disposal audit

5 production/disposition audit in process

1 gas plant audit in process

Monthly and quarterly system edits were current to the extent possible (given reporting delays)

Bonding

Disposal Facility Bonds

4 bonds released due to sale of two properties, (one incremental bond increased to full cost bond)

11 bonds replaced

16 new bonds (8 operators)

3 new facility operators

Well Plugging Bonds

20 bonds released

3 bonds replaced (one bond amount was reduced)

29 new bonds (21 operators - one bond to full cost bonding)

7 new operators with blanket bonds

14 new operators with individual bonds

Operator Change

32 operator (different operators) changes involving 347 wells and 1 orphan well plugging

Entity Change Activity

1,378 total entity changes (673 new entities added, 705 entities changed to unit participating entity number)

Miscellaneous and Administrative Activity

Revision of production/disposition, water disposal, field inspections, and gas plant audit programs in process.

Template and audit file working paper standardizing project in process.

Development of in-house audit (normally field audits) project for budget savings in process.

Miscellaneous involvement in Board hearing matters.

Engineering:

Orphan Well Program

After finishing up a couple of contracts late last year (2007), the engineering group is gearing up for another contract this spring. The contract will focus on wells in the Greater Cisco field. The engineering group transferred a couple of wells on the Orphan Well list to the Utah Geological Survey (UGS) in March of 2008. These wells were located in Millard County and will be used by the UGS as part of their Snake Valley Water Monitoring project.

SI/TA Program

The 2008 SI/TA program brought 83 of the 338 State or Fee wells in long term SI/TA status (>1 yr SI/TA) into compliance with R649-3-36. The operator either: provided integrity information (21 wells), plugged the wells (22 wells) or returned the wells to production (40 wells). 223 of the 338 wells were carryovers from previous years meaning 115 new wells were added to the list in 2008. This year we also added operation suspended (OPS) wells to the tracking and enforcement list for wells with no activity for over 12 months. OPS wells are wells that drilling was commenced, but the well was never completed for one reason or another. Many of these have just conductor casings set or surface casing set awaiting the big rig to finish drilling the wells. 34 of the 338 wells for 2008 were in OPS status. The Division is currently working to bring one operator into compliance that had 61 of the 338 State or Fee SI/TA wells on the list. This operator successfully removed 21 of their wells from the list. In addition, the Division is working on getting updated plans, information and subsequent reports from several other operators. We expect the number of SI/TA wells to be significantly lower once all the proposed work is done and the paperwork is in. We are still awaiting the results of approximately 80 wells proposed by the operators to plug and abandon or return to production. Many of these we are just waiting for the paperwork as the work has already been done.

Fields Review

The engineering staff reviews field designation at the end of each calendar year. The last review, conducted as the result of drilling activity in 2007 was completed in March of 2008. The drilling of 73 productive wells outside of active Field boundaries in 2007, led to the expansion of 27 existing Fields, reactivation of 2 Fields (the Grassy Trail Field and the Randlett Field) and the creation of 2 new Fields (the Scofield Field and the Big Spring Field). The 2008 field review is underway and should be completed by the end of March 2009.

Work Over Tax Credits

In 2008, the engineering staff reviewed 219 WO tax credits. Of these 219 tax credits, 172 were approved. The total of the approved submitted expenses was \$30,297,982.95. This is not the actual amount of the tax credit, just the amount of the qualifying costs of qualifying work of the

workovers. Operators are allowed to take 20% of the qualifying work up to a maximum of \$30,000/year for each well. The majority of the workover tax credit applications were received for workovers done in Monument Butte Field (66), followed by Natural Buttes Field (42), Altamont/Bluebell Fields (41) and 8 Mile Flat North Field (35).

Sundries, APD's and Miscellaneous

The Engineering group processed hundreds of sundry notices and other miscellaneous requests such as wildcat well determination, flaring approvals, plugging requests, drilling program changes, recompletions and commingling applications. Also provided engineering review of State and Fee APD's.

Public Outreach:

Work continues with the Nation Energy Foundation (NEF) and others to develop an education program for schools. In 2007 the division along with Trust Lands, UPA and NEF held a Super Tour that attracted 55 educators. A second Super Tour is being planned for the summer of 2009.

In October the Division was one of six cooperative energy booths at the Utah Educators Association Convention to distribute information and talk with Utah teachers. The Division will have a booth at the March Sportsman Exposition. In addition, the Division is one of nine sponsors for a Utah Energy State Debate to be held in April at Hunter High School. A new Think Energy poster has been finished and is in preparation for mailing.

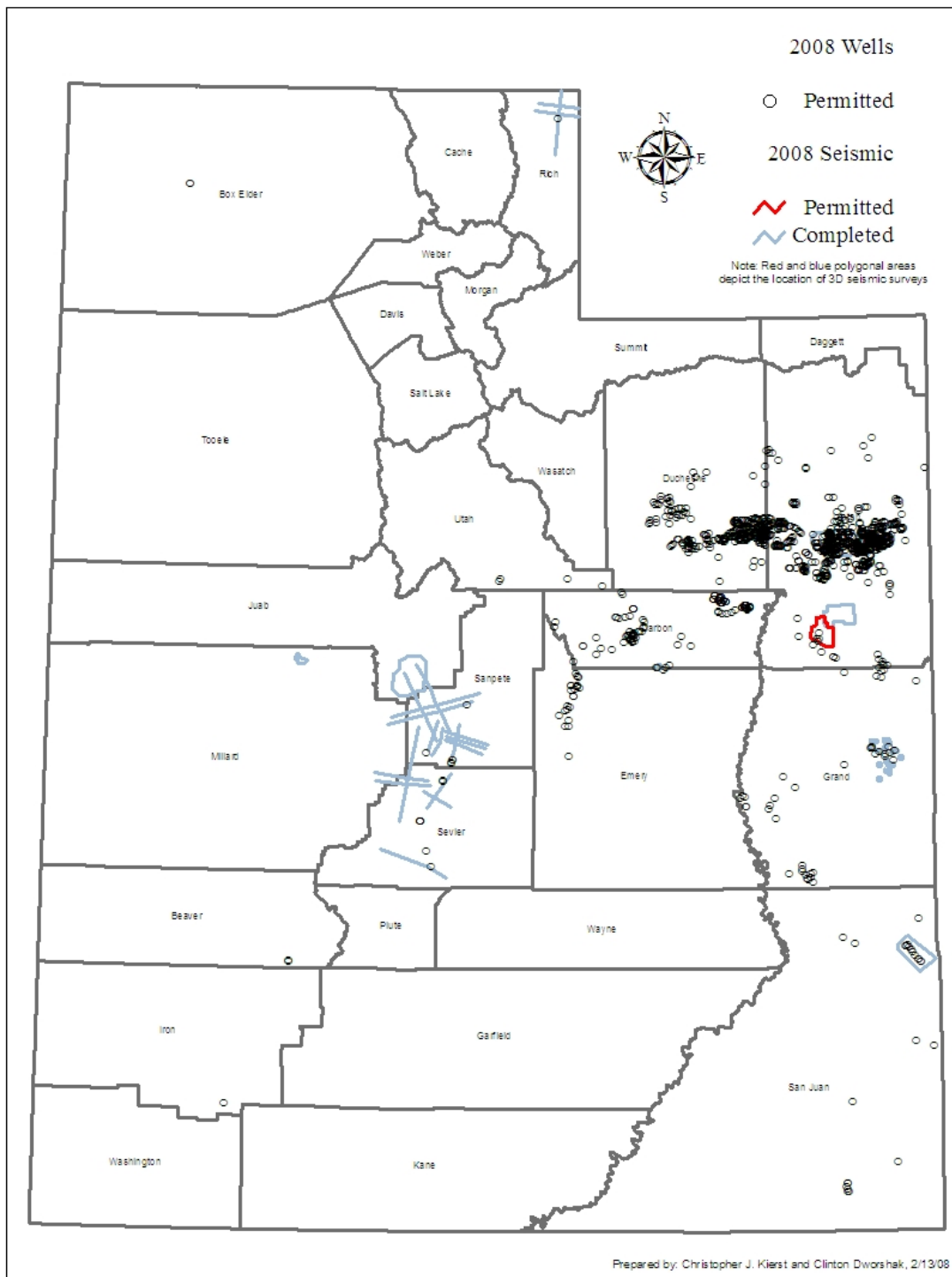
The Division has purchased a lighted portable display with a nice professional quality backdrop displaying various industry activities.

The Uinta Basin Oil & Gas Collaborative Group continues to meet quarterly in Vernal with high participation from agencies, industry and others.

Board Support:

Oil and gas staff provided support and recommendations to the Board. It was a fairly busy year for Board matters including one of the largest spacing modification hearings in years for increased density drilling in the Altamont-Bluebell-Cedar Rim/Sink Draw area.

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Seismic Activity

